



# ANNUAL USE OF CAPITAL SURVEY - 2009

## NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Village Bank and Trust Financial Corp and its wholly owned subsidiary Village Bank

Person to be contacted regarding this report:	Dennis Falk, 804 419 1231
CPP Funds Received:	\$14,738,000
CPP Funds Repaid to Date:	\$0
Date Funded (first funding):	5/1/2009
Date Repaid <sup>1</sup> :	

RSSD: (For Bank Holding Companies)	3251027
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	35111
City:	Midlothian
State:	Virginia

<sup>1</sup>If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Loan balances were largely unchanged from YE08 to YE09. However, with the severe economic downturn nationwide and similarly in Richmond VA, Village Bank's market, with resulting asset valuation charges and capital impact, absent the CPP capital injection, lending would have diminished.
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<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Given economic conditions, Village Bank repositioned its loan portfolio in 2009 whereby permanent loans secured by residential real estate and small business owner-occupied real estate increased and construction loans and loans secured by investor real estate decreased...details below.
<input checked="" type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	Net growth in securities for 2009 totaled \$30 million which enhanced liquidity and was centered principally in US Agency and Municipal/Housing Authority securities.
<input type="checkbox"/>	Make other investments	N/A
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	Reserves for 2009 were augmented by 74% in recognition of the severe economic deterioration and its impact upon our borrowers.

<input type="checkbox"/>	Reduce borrowings	Village Bank does not rely to any material degree on wholesale funds. At 12/31/09, 94% of assets were funded by combined retail sources and equity.
<input checked="" type="checkbox"/>	Increase charge-offs	Net charge-offs were up \$7 million in 2009 versus 2008 given the same circumstances noted above regarding reserves.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	N/A
<input type="checkbox"/>	Held as non-leveraged increase to total capital	N/A

What actions were you able to avoid because of the capital infusion of CPP funds?

As alluded to above, Village Bank did not engage in the strategy employed by many in the industry to reduce the loan portfolio. Outstandings were flat year over year but many new loans were originated, focused in those segments for which growth was sought...

- o First mortgage permanent loans secured by 1-4 family residences...net growth of \$23.5 million and
- o Small business loans secured by owner-occupied real estate...net growth of \$15.6 million.

From an overall portfolio perspective and given market conditions, that growth was largely offset by reductions in construction loans (down \$27.0 million) and loans secured by investor properties (down \$9.0 million).

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

From a capital perspective, Village Bank was in the most favorable regulatory capital assessment tier (Well Capitalized) prior to receipt of the CPP capital injection and remains so despite the unprecedented economics pressures in 2009. By remaining in that favored category, Village Bank (locally owned and based) is able to provide a full array of community banking services to include those qualifying for Community Reinvestment Act designation to small businesses and households in Richmond and vicinity. Such is considered vital to economic development for Central Virginia in view of the many out of market take-overs of regional and community banks in this market over the past decade.

Village Bank was able to significantly grow its wholly owned subsidiary, Village Bank Mortgage Corp., which provides mortgage funding to home buyers in markets primarily in Virginia. All production is ultimately sold servicing-released in the secondary market. Production for 2009 was \$252 million up from \$100 million in 2008. Average mortgage size in 2009 was \$174 thousand and \$169 thousand in 2008 reflecting the community-based nature of such production. Moreover, it is noteworthy that Village Bank Mortgage Corp. did not and does not engage in subprime lending, a major contributor to recent economic woes.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

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